

Chapter 15

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# **Review of the financial position and performance of NBP as at 31 December 2020**



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## 15.1. Introduction

The aim of this chapter is to present summarised information on financial position and performance of NBP for 2020 and comparative data for 2019.<sup>1</sup> It describes, from the financial perspective, the areas of activity of the central bank, primarily the management of foreign exchange reserves, the conduct of monetary policy, the issuing activity as well as operating expenses and depreciation and amortisation expenses.<sup>2</sup>

In particular, the chapter includes information concerning the Balance Sheet and the Profit and Loss Account in 2020 compared to the previous year. The following are presented in the Balance Sheet: change in the balance sheet total, change in the structure of assets and liabilities, major items of assets and liabilities broken down by foreign currencies and domestic currency. In the Profit and Loss Account, items comprising the net result are presented (e.g. net result on interest, discount and premium, net result on financial operations, net result on fees and commissions) and broken down into the main areas which can be separated from the profit and loss account (net result on the management of foreign exchange reserves, net result on foreign exchange gains/losses, net result on monetary policy, operating expenses and depreciation and amortisation expenses). This information is preceded by the description of the selected areas of NBP's activity from the financial perspective.

In addition to financial data for 2020 and 2019, in order to show the information presented over a broader time horizon the chapter also presents historical data, i.e. the developments in the financial position and performance of NBP on a five-year basis (2016–2020).

The information contained in this chapter is complementary to the *Financial Statements of Narodowy Bank Polski as at 31 December 2020*, available on the NBP website together with the *Independent Auditor's Report*.<sup>3</sup>

A summary of changes in the NBP Balance Sheet and the NBP Profit and Loss Account in 2016–2020 is presented below (Figures 15.1 and 15.2).

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<sup>1</sup> All data included in this chapter are NBP data, including the data from the accounting books of NBP. The figures may not add up to totals due to rounding.

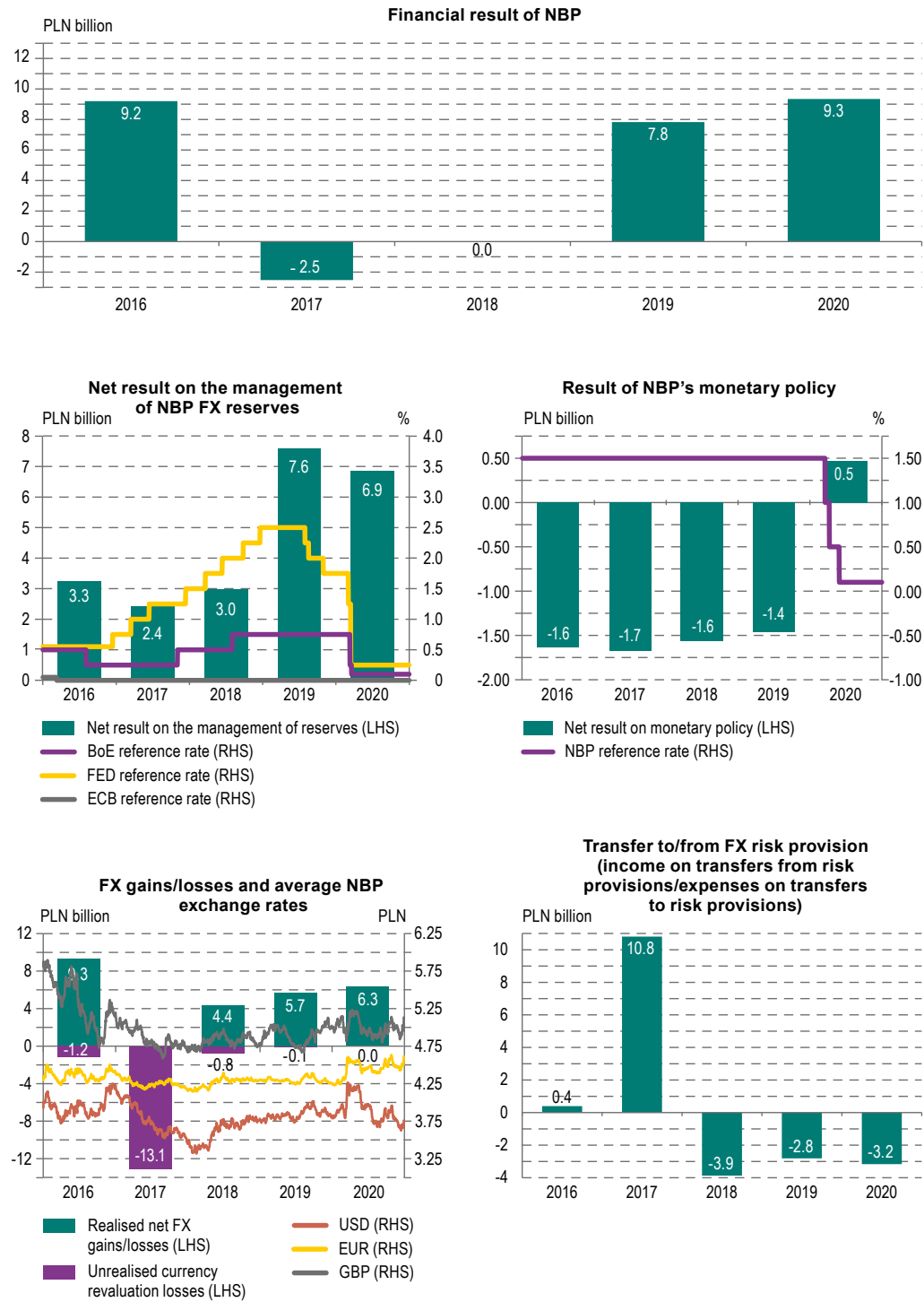
<sup>2</sup> Operating expenses comprise expenses on salaries, administrative expenses and expenses on issue of banknotes and coins.

<sup>3</sup> In the Statistics tab, under Accounting.

Figure 15.1. Changes in the NBP Balance Sheet in 2016–2020 (according to balance sheet date data)



**Figure 15.2.** Changes in the NBP Profit and Loss Account in 2016–2020 (according to data for the financial year indicated)



#### 15.1.1. Management of foreign exchange reserves (foreign currency reserves and gold)

Narodowy Bank Polski holds and manages foreign exchange reserves pursuant to the Act on NBP. Foreign exchange reserves have the highest share in NBP assets. They are invested in instruments commonly used by central banks, primarily in securities issued by governments, government agencies and international institutions and, to a lesser extent, in term deposits and bonds of non-financial corporations. In addition, a minor part of foreign currency reserves is held in current accounts, mainly with foreign central banks. In order to gain additional income, NBP concludes reverse repo transactions (presented under assets in the balance sheet), usually accompanied by repo transactions (presented under liabilities in the balance sheet). Foreign currency reserves are invested in instruments denominated in USD, EUR, GBP, AUD, NOK and NZD.

In addition, NBP holds gold (presented under assets in the balance sheet), held at the Bank of England (on the current account or on term deposit accounts) and in NBP vaults.

The financial result of NBP is mainly determined by the management of foreign exchange reserves. Income and expenses related to investment instruments of foreign exchange reserves mainly involve interest on securities and deposits (presented in net result on interest, discount and premium of the Profit and Loss Account), net result on sale and price revaluation of securities (only revaluation losses)<sup>4</sup> and net result on off-balance sheet financial instruments (presented in net result on financial operations of the Profit and Loss Account).<sup>5</sup>

The net result on the management of foreign exchange reserves is largely determined by the trends in factors beyond NBP's control. These factors include mainly: the volume of the inflow of funds in foreign currency from abroad and their exchange into domestic currency in NBP (which leads to an increase in the level of foreign exchange reserves) and the developments in financial markets – exchange rates against the zloty and interest rates in foreign markets. The net result on the management of foreign exchange reserves is also affected by the adopted investment structure of foreign exchange reserves, i.e. their currency composition and the type of financial instruments used.

#### 15.1.2. Monetary policy

Narodowy Bank Polski implements monetary policy using a set of instruments adopted by the Monetary Policy Council (MPC). Monetary policy is conducted amid a liquidity surplus prevailing in the banking sector. In order to implement the operational objective of the monetary policy, NBP uses selected instruments, in particular open market operations based on the issue of NBP bills (presented under liabilities in the Balance Sheet).

The reserve requirement is also a monetary policy instrument used by NBP. The obligation to maintain the required minimum reserve (presented under liabilities in the Balance Sheet) limits the scale of open market operations performed to absorb the excess liquidity from the banking sector.

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<sup>4</sup> Securities denominated in foreign currency are valued according to the average market price or based on yield curve rates (if market prices are not available). In accordance with the principle of prudence, revaluation gains are included under liabilities in the NBP Balance Sheet (as an element of the equity of NBP) and therefore they do not increase the financial result of NBP.

<sup>5</sup> Refers to the valuation of derivatives used in connection with the management of foreign currency reserves.

Narodowy Bank Polski provides standing facilities to domestic banks and enables them to locate liquidity surpluses in NBP in the form of overnight deposits (presented under liabilities in the Balance Sheet) or to supplement liquidity needs with the use of Lombard credit (presented under assets in the Balance Sheet). NBP may also, under certain conditions, grant a refinancing loan in PLN to banks to replenish their cash resources (presented under assets in the balance sheet).

In connection with the COVID-19 pandemic, due to the severity of the situation and the risk to the Polish economy, in 2020 NBP included additional measures in its monetary policy with the aim of mitigating the adverse effects of the pandemic (presented under assets in the balance sheet):

- it conducted purchases of Treasury bonds and securities guaranteed by the Treasury on the secondary market as part of structural open market operations,
- it made bill discount credit available to banks, enabling them to refinance the loans they grant to entrepreneurs,
- it conducted a reverse repo operation providing banks with liquidity.

Moreover, the NBP interest rates and the required minimum reserve ratio were lowered in 2020. It was agreed that the interest on funds held in NBP under the required minimum reserve would be equal to the NBP reference rate.

As a result of the continuing excess liquidity in the domestic banking sector, NBP incurs discount expenses on NBP bills issued (like interest expenses on the required minimum reserve, they are presented in net result on interest, discount and premium of the NBP Profit and Loss Account). The level of expenses on monetary policy mainly depends on the level of interest rates set by the MPC, the excess liquidity of the banking sector (calculated as the volume of issue of NBP bills as well as the standing facilities of NBP), the required minimum reserve rate and its interest rate.

On the other hand, the NBP's measures to counteract the negative impact of the COVID-19 pandemic resulted in an increase in net income in the NBP net result – mainly due to income on interest on the securities purchased.<sup>6</sup>

### 15.1.3. The issue of currency

The issue of currency is based on the exercise by NBP of its constitutional right to issue currency of the Republic of Poland. NBP issues banknotes and coins of general circulation as well as collector banknotes and coins of various denominations. The volume of money issue depends on exogenous factors, in particular on the development of the demand for cash in the economy.

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<sup>6</sup> Securities denominated in domestic currency held for monetary policy purposes are valued at purchase price adjusted for the amortised discount/premium, less impairment. As at the end of 2020, no indication of securities' impairment was identified.

Banknotes and coins issued represent a liability of NBP which, together with liabilities related to monetary policy, is the most significant liability item on the Balance Sheet of NBP.

The issue of currency is associated with the costs of producing banknotes and coins (NBP orders the production of banknotes and coins). Expenses on issue of banknotes and coins depend primarily on the number (volume) of banknotes and coins ordered and their purchase prices as well as the cost of purchasing bullion for coin production.

### Currency asymmetry and FX risk provision

The balance sheet of NBP is characterised by currency asymmetry. This means that assets denominated in foreign currency (foreign exchange reserves) form the prevailing part of assets, while liabilities denominated in domestic currency (monetary policy, issue of banknotes and coins) prevail on the liabilities side. Therefore, NBP holds an open FX position, i.e. a surplus of assets over liabilities denominated in foreign currency. It is thus exposed to FX risk.

The impact of fluctuations of foreign exchange rates on the financial result of NBP (net result of foreign exchange gains/losses) depends on the trends in the exchange rate of the zloty against foreign currencies both during the year (realised foreign exchange gains/losses on transactions) and at the balance sheet date (revaluation gains and losses of foreign currency holdings). Realised foreign exchange gains/losses are presented in net result on financial operations of the Profit and Loss Account. At the end of the year, however, the impact on the NBP financial result due to foreign currency holdings is asymmetrical. Currency revaluation losses (unrealised losses) decrease the financial result of NBP and are presented in net result on financial operations of the Profit and Loss Account of NBP (like currency revaluation gains and losses on transactions during the year). On the other hand, currency revaluation gains (unrealised gains) increase the equity of NBP and are not recognised in the NBP Profit and Loss Account.

Currency asymmetry generates the risk of a loss as a result of exchange rate volatility, while the probability of its occurrence increases parallel to the scale of appreciation of the zloty against foreign currencies. In order to counteract the negative impact of volatility in the zloty exchange rate on the NBP financial result, the Act on Narodowy Bank Polski requires NBP to create a provision against the foreign exchange rate risk of the zloty (referred to FX risk provision). The principles for creating and releasing the FX risk provision are determined by the MPC.<sup>1</sup> The creation of the provision decreases the financial result of NBP, while its release increases it, thereby limiting a potential loss that might result from currency revaluation. The result of the transfer to/from the provision is presented in the Profit and Loss Account (in net result on financial operations), while the balance of the provision is presented under liabilities in the Balance Sheet (as an element of the equity of NBP – under the item of Capital and reserves).

<sup>1</sup> Resolution No. 6/2019 of the Monetary Policy Council of 5 November 2019 on the principles for creating and releasing the provision against the foreign exchange rate risk of the zloty at Narodowy Bank Polski (NBP Official Journal, item 14).

#### 15.1.4. Other activities of NBP

In addition to the areas of activity outlined above, the financial position and performance of NBP is also affected by the performance of other tasks by the Bank:

- In the balance sheet, NBP presents receivables and liabilities related to the participation of the Republic of Poland in the International Monetary Fund (NBP acts as an agent of the government of the Republic of Poland in relations with the IMF); the assets include, among others, the Republic of Poland's member quota in the IMF paid in foreign currency (the so-called reserve tranche), the current account in SDR used for settlements with the IMF, and loans granted to the IMF. On the other hand, liabilities refer to SDR allocation granted to Poland and are presented under liabilities of the balance sheet. Both receivables and liabilities bear the interest while income and expenses are presented in the Profit and Loss Account (net result on interest, discount and premium).
- Narodowy Bank Polski operates the Polish component of the pan-European settlement system for euro-denominated payments (TARGET2-NBP). Within the system, it operates the accounts of participants in this system, mainly domestic banks (presented under liabilities of the balance sheet) and also maintains the balance on the current account with the ECB (presented under assets of the balance sheet). Due to the current negative interest rate on balances maintained by NBP on its current account with the ECB, the Bank incurs interest expenses, which are mostly reimbursed by the system participants keeping euro accounts with the NBP for settlements in TARGET2. Both interest and expenses are presented in the Profit and Loss Account (net result on interest, discount and premium).
- Narodowy Bank Polski also maintains bank accounts for the government sector, including mainly for the State budget. These accounts are presented under liabilities of the Balance Sheet; their operation involves interest expenses (presented under net result on interest, discount and premium in the Profit and Loss Account).

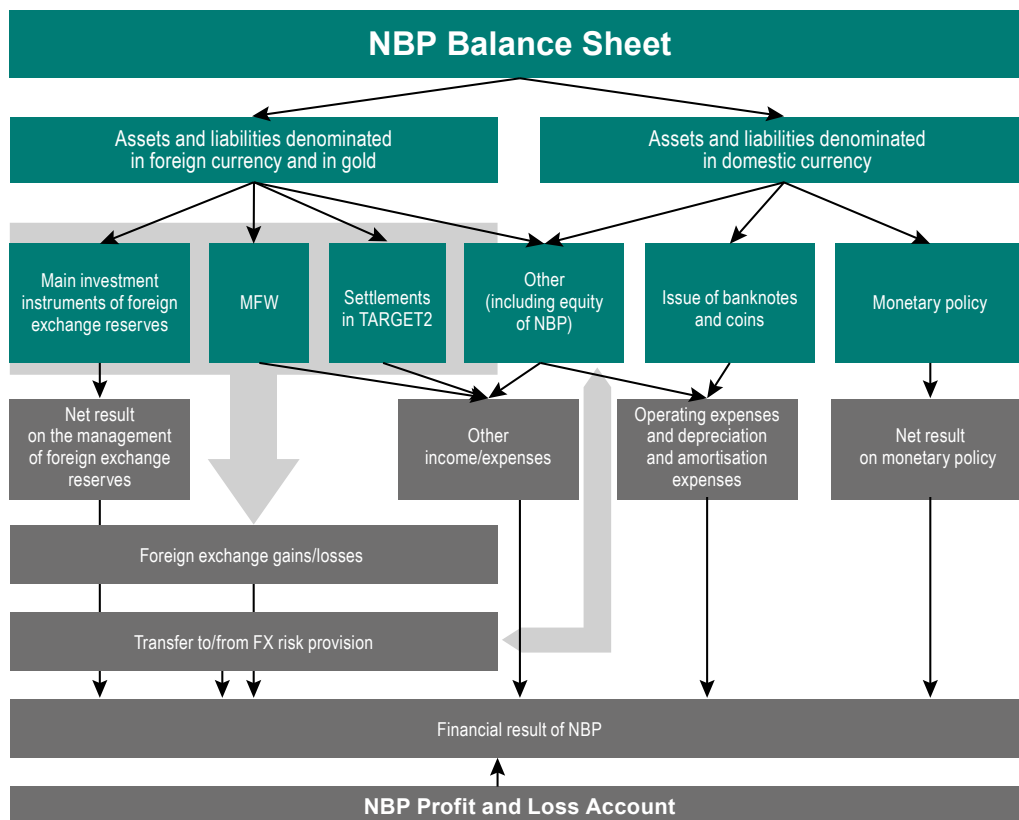
#### 15.1.5. Operating expenses and depreciation and amortisation expenses

The implementation of the NBP tasks involves the commitment of appropriate resources and their management. These are primarily human resources and tangible resources (tangible fixed assets and intangible fixed assets). NBP also makes use of external resources, including the services of third parties (e.g. IT services). There are expenses associated with these resources management for NBP, which are recognised in the Profit and Loss Account (as expenses on salaries, administrative expenses, depreciation and amortisation expenses). The aforementioned expenses, together with expenses on issue of banknotes and coins, are referred to as operating expenses and depreciation and amortisation expenses.



Figure 15.3 provides a simplified analysis of the financial position and performance of NBP.

**Figure 15.3.** Financial position and performance of NBP



## 15.2. Characteristics of the NBP Balance Sheet

As at 31 December 2020, the NBP balance sheet total amounted to PLN 694.3 billion and was higher by PLN 205.2 thousand (42.0%) compared to 31 December 2019.

**Table 15.1.** NBP assets and liabilities at the end of 2020 and 2019 (PLN billion)

Assets	2020	2019	Change
A.1. Gold and gold receivables	52.3	42.5	9.8
A.2. Claims on non-residents denominated in foreign currency	527.5	445.2	82.3
2.1. Receivables from the IMF	6.9	5.3	1.6
2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	520.6	439.9	80.7
A.5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	0.1	0.0	0.1
A.6. Other claims on other domestic monetary financial institutions denominated in domestic currency	0.0	0.0	0.0
A.7. Securities of residents denominated in domestic currency	112.6	0.0	112.6
A.10. Other assets	2.0	1.4	0.6
<b>Total assets</b>	<b>694.3</b>	<b>489.1</b>	<b>205.2</b>
Liabilities	2020	2019	Change
L.1. Banknotes and coins in circulation	321.8	238.8	83.0
L.2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	62.6	65.4	-2.8
L.3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency	0.4	0.4	0.1
L.4. Liabilities due to issued securities denominated in domestic currency	127.8	65.0	62.8
L.5. Liabilities to other residents denominated in domestic currency	24.9	9.3	15.5
L.6. Liabilities to non-residents denominated in domestic currency	2.2	2.3	-0.1
L.7. Liabilities to residents denominated in foreign currency	46.3	22.4	23.9
L.8. Liabilities to non-residents denominated in foreign currency	45.4	43.7	1.7
L.9. Liabilities to the IMF	7.1	6.9	0.3
L.11. Other liabilities	0.7	0.2	0.5
L.12. Provisions for future liabilities	0.2	0.2	0.0
L.13. Revaluation accounts	45.7	30.5	15.2
L.14. Capital and reserves	11.7	8.2	3.6
14.1. Statutory fund	1.5	1.5	0.0
14.2. Reserve fund	0.4	0.0	0.4
14.3. Reserves	9.9	6.7	3.2
L.15. Financial result	-2.5	-4.0	1.5
15.1. Financial result for the current year	9.3	7.8	1.5
15.2. Loss of previous years	-11.9	-11.9	0.0
<b>Total liabilities</b>	<b>694.3</b>	<b>489.1</b>	<b>205.2</b>

In 2020, due to the purchase of securities denominated in zloty for monetary policy purposes, the share of assets denominated in zloty in the total assets of NBP increased. In addition, the above operations also had the highest impact on the increase in the balance sheet total of NBP in 2020. Furthermore, the increase in the NBP balance sheet total resulted, among others, from account holders' transactions as well as the currency and price revaluation of balance sheet items (revaluation to current exchange rates and market prices).

Figure 15.4. Change in the balance sheet total of NBP in 2020 compared to 2019

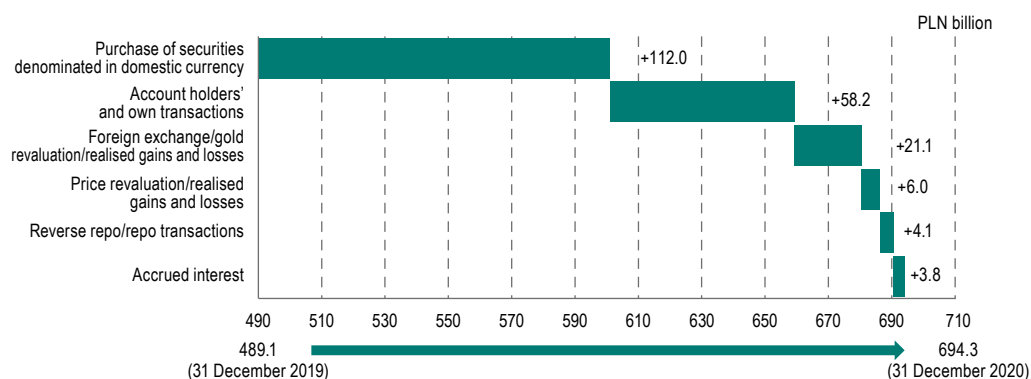


Figure 15.5. Structure of assets

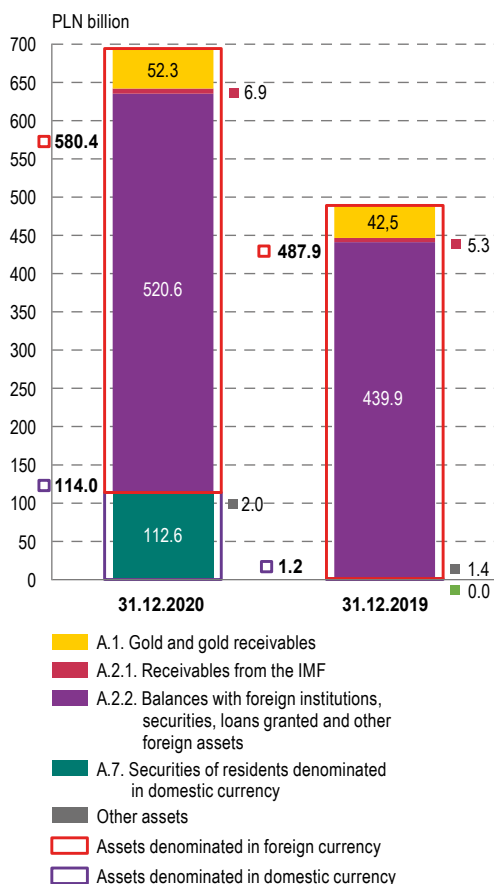
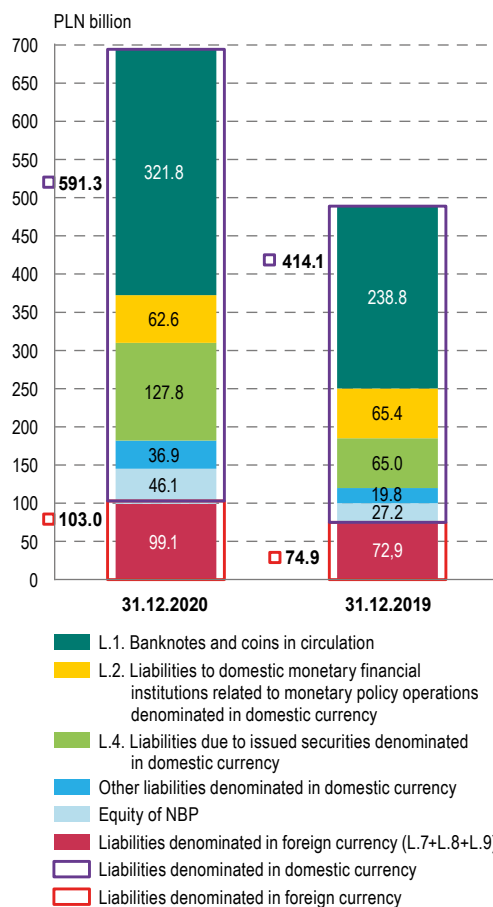


Figure 15.6. Structure of liabilities



## 15.2.1. Assets and liabilities in foreign currency and in gold

**Table 15.2.** NBP assets and liabilities in gold and in foreign currency by selected areas of activity at the end of 2020 and 2019 (PLN billion)

	Main investment instruments of foreign exchange reserves		IMF		Settlements in TARGET2		Other		Total		
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	Change
A.1. Gold and gold receivables	28.3 <sup>1</sup>	23.0 <sup>1</sup>					24.0 <sup>2</sup>	19.5 <sup>2</sup>	52.3	42.5	9.8
A.2. Claims on non-residents denominated in foreign currency	517.5	436.2	6.9	5.3	2.9	3.5	0.3	0.2	527.5	445.2	82.3
A.10. Other assets							0.6	0.1	0.6	0.1	0.5
<b>Total assets</b>	<b>545.8</b>	<b>459.3</b>	<b>6.9</b>	<b>5.3</b>	<b>2.9</b>	<b>3.5</b>	<b>24.9</b>	<b>19.8</b>	<b>580.4</b>	<b>487.9</b>	<b>92.6</b>
P.7. Liabilities to residents denominated in foreign currency					2.9	3.5	43.4	18.8	46.3	22.4	23.9
P.8. Liabilities to non-residents denominated in foreign currency	45.2	42.9					0.1	0.7	45.4	43.7	1.7
P.9. Liabilities to the IMF			7.1	6.9					7.1	6.9	0.3
P.11. Other liabilities							0.4	0.0	0.4	0.0	0.4
P.13. Revaluation accounts							3.9	2.1	3.9	2.1	1.8
<b>Total liabilities</b>	<b>45.2</b>	<b>42.9</b>	<b>7.1</b>	<b>6.9</b>	<b>2.9</b>	<b>3.5</b>	<b>47.8</b>	<b>21.7</b>	<b>103.0</b>	<b>74.9</b>	<b>28.1</b>
Net balance sheet item	500.5	416.3	-0.2	-1.6	0.0	0.0	-22.8	-1.9	477.4	412.9	64.5

<sup>1</sup>Gold on the current account and term deposits.

<sup>2</sup>Gold in NBP vaults.

**Table 15.3.** Holdings of gold and main foreign currencies at the end of 2020 and 2019 (PLN billion)

	2020			2019		
	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)	Holdings at the average cost of holding	Holdings at the average NBP exchange rate	Unrealised gains (+) / losses (-)
Gold	24.7	52.3	27.5	24.7	42.5	17.8
USD	223.9	225.3	1.4	180.5	187.7	7.2
EUR	84.2	88.5	4.3	74.7	74.7	-0.0
GBP	50.9	53.0	2.1	43.7	45.2	1.5
AUD	33.0	35.6	2.6	30.3	30.3	0.0
NOK	25.3	26.8	1.5	23.0	22.9	-0.1
NZD	12.8	13.6	0.8	10.9	11.1	0.2
IMF (SDR)	-0.2	-0.2	0.0	-1.6	-1.6	0.1
Unrealised gains (balance sheet)			40.3	Unrealised gains (balance sheet)		26.8
Unrealised losses (financial result)			0.0	Unrealised losses (financial result)		-0.1

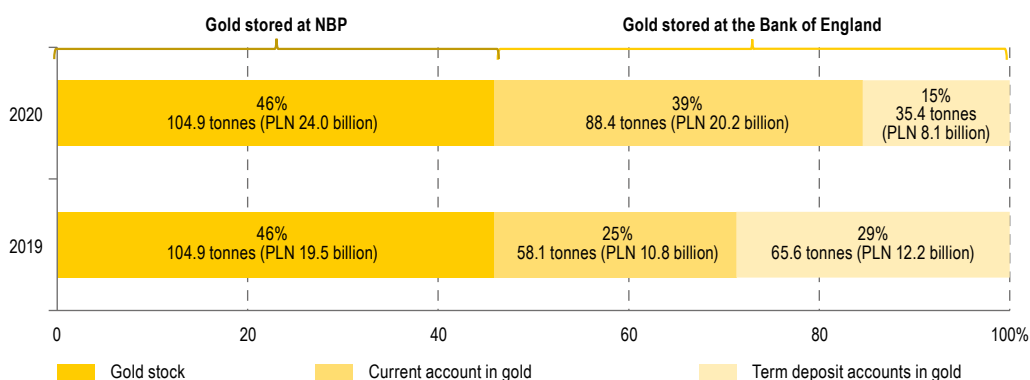
The difference between the equivalent of foreign currency holdings and gold holdings at the average NBP exchange rate and the equivalent of these holdings at the average cost of the holding (i.e. the average purchase price) represents unrealised currency/gold

revaluation gains or losses. Unrealised gains are presented under liabilities in the balance sheet (as part of the equity of NBP under the item of revaluation accounts – see Table 15.8), while unrealised losses are presented in the NBP Profit and Loss Account (net result on financial operations, see Table 15.12).

### 15.2.1.1. Gold

Gold holdings held by NBP amounted to 228.7 tonnes (PLN 52.3 billion) and accounted for 7.5% of NBP assets as at the end of 2020.

**Figure 15.7.** Gold and gold receivables as at the end of 2020 and 2019



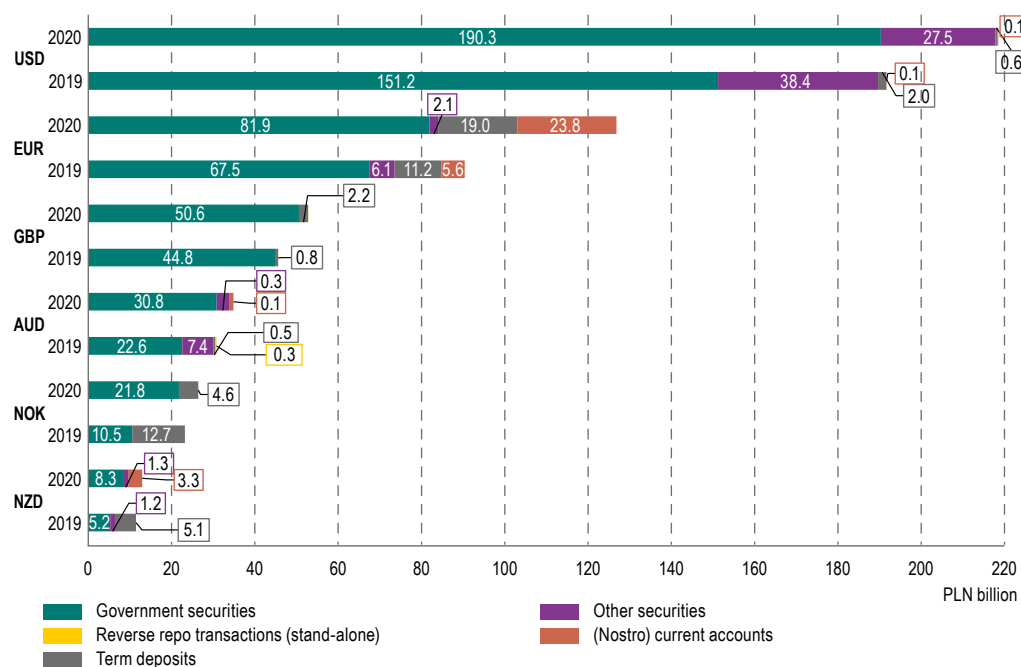
### 15.2.1.2. Main investment instruments of foreign exchange reserves (other than gold)

In the process of managing foreign exchange reserves, NBP invests funds mainly in securities. In order to increase the profitability of reserves, NBP concludes simultaneous reverse repo/repo transactions. Moreover, short-term deposits are used, to a minor extent, as part of investment (a portion of investments in term deposits is linked to funds of account holders with the NBP).

**Table 15.4.** Main investment instruments of foreign exchange reserves at the end of 2020 and 2019; assets (+), liabilities (-) (PLN billion)

	2020	2019	Change
A.2.2. (Nostro) current accounts	28.3	5.7	22.5
A.2.2. Term deposits	26.4	32.2	-5.8
A.2.2. Reverse repo transactions	45.2	43.2	2.0
P.8. Repo transactions	-45.2	-42.9	-2.3
A.2.2. Securities	417.6	355.0	62.6
<b>Total</b>	<b>472.2</b>	<b>393.2</b>	<b>79.0</b>

**Figure 15.8.** Currency composition of the main investment instruments of foreign exchange reserves as at the end of 2020 and 2019



### 15.2.1.3. Receivables from and liabilities to the International Monetary Fund

The NBP foreign exchange position in SDR is mainly the result of operations with the IMF<sup>7</sup> on the basis of concluded loan agreements and borrowing agreements. This item is mainly affected by funds transferred by NBP to IMF borrowers, related to meeting the IMF's borrowing needs (increasing the reserve tranche), and repayments to NBP by IMF borrowers (decreasing the reserve tranche). In addition, the interest on receivables (loans extended to the IMF, the interest-bearing part of the reserve tranche, the current account) and interest on liabilities to the IMF (SDR allocation) change the position.

<sup>7</sup> NBP also holds SDR-denominated shares in the Bank for International Settlements (PLN 54.6 million as at the end of 2020).

**Table 15.5.** Receivables (+) from and liabilities (-) to the IMF denominated in SDR as at the end of 2020 and 2019 (PLN billion)

	2020	2019	Change
A.2.1. Reserve tranche	4.9	3.3	1.6
A.2.1. Current account with the IMF	1.6	1.5	0.1
A.2.1. Term deposits in the IMF	0.0	0.0	0.0
A.2.1. Loans extended to the IMF	0.3	0.3	-0.0
L.9. SDR allocation	-7.1	-6.9	-0.3
<b>Total</b>	<b>-0.2</b>	<b>-1.6</b>	<b>1.4</b>

### 15.2.2. Assets and liabilities denominated in domestic currency

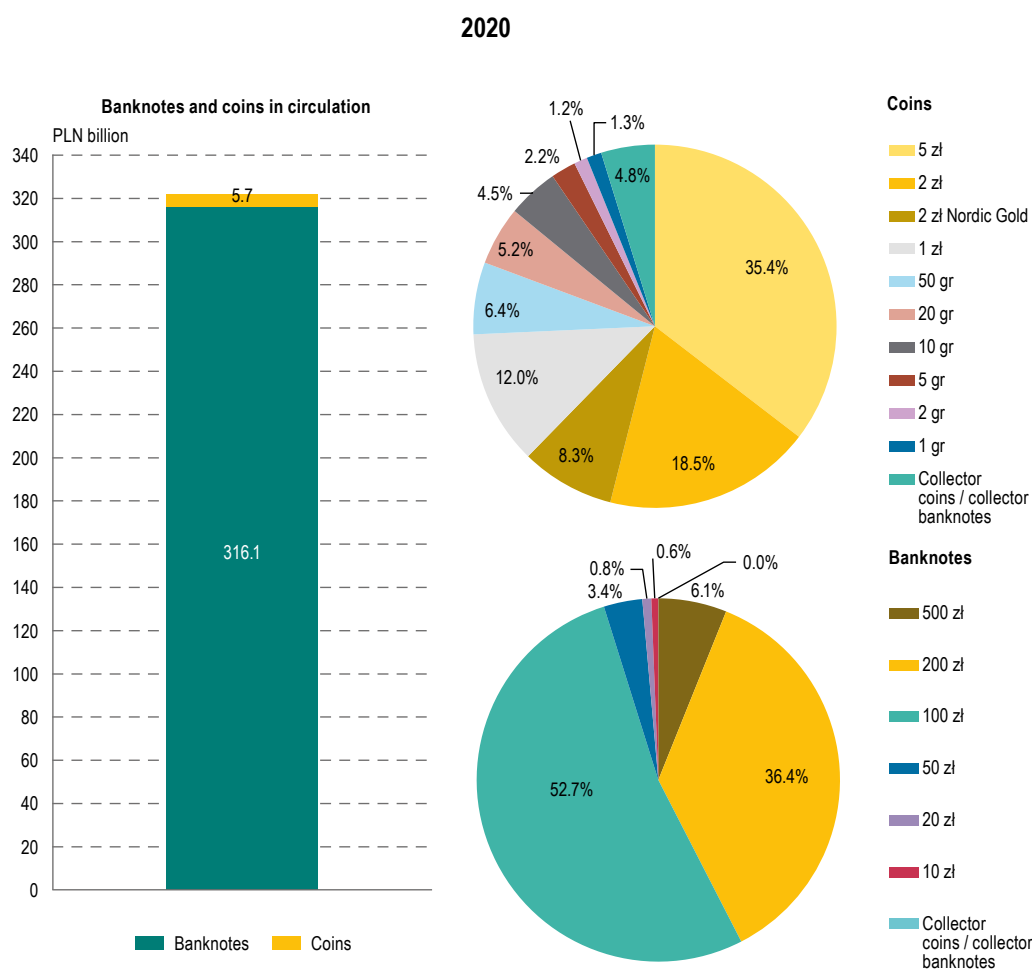
**Table 15.6.** Assets and liabilities in PLN by selected areas of NBP activity as at the end of 2020 and 2019 (PLN billion)

	Issue of banknotes and coins		Monetary policy		Other		Total		
	2020	2019	2020	2019	2020	2019	2020	2019	Change
A.5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency			0.1	0.0			0.1	0.0	0.1
A.6. Other claims on other domestic monetary financial institutions denominated in domestic currency					0.0	0.0	0.0	0.0	0.0
A.7. Securities of residents denominated in domestic currency			112.6	0.0			112.6	0.0	112.6
A.10. Other assets					1.3	1.2	1.3	1.2	0.1
<b>Total assets</b>	<b>0.0</b>	<b>0.0</b>	<b>112.6</b>	<b>0.0</b>	<b>1.3</b>	<b>1.2</b>	<b>114.0</b>	<b>1.2</b>	<b>112.7</b>
L.1. Banknotes and coins in circulation	321.8	238.8					321.8	238.8	83.0
L.2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency			62.6	65.4			62.6	65.4	-2.8
L.3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency					0.4	0.4	0.4	0.4	0.1
L.4. Liabilities due to issued securities in domestic currency			127.8	65.0			127.8	65.0	62.8
L.5. Liabilities to other residents denominated in domestic currency					24.9	9.3	24.9	9.3	15.5
L.6. Liabilities to non-residents denominated in domestic currency					2.2	2.3	2.2	2.3	-0.1
L.11. Other liabilities					0.3	0.2	0.3	0.2	0.2
L.12. Provisions for future liabilities					0.2	0.2	0.2	0.2	0.0
L.13. Revaluation accounts					41.9	28.4	41.9	28.4	13.4
L.14. Capital and reserves					11.7	8.2	11.7	8.2	3.6
L.15.1. Financial result for the current year					9.3	7.8	9.3	7.8	1.5
L.15.2. Loss of previous years					-11.9	-11.9	-11.9	-11.9	0.0
<b>Total liabilities</b>	<b>321.8</b>	<b>238.8</b>	<b>190.4</b>	<b>130.4</b>	<b>79.1</b>	<b>44.9</b>	<b>591.3</b>	<b>414.1</b>	<b>177.2</b>
Net balance sheet item	-321.8	-238.8	-77.8	-130.4	-77.8	-43.7	-477.4	-412.9	-64.5

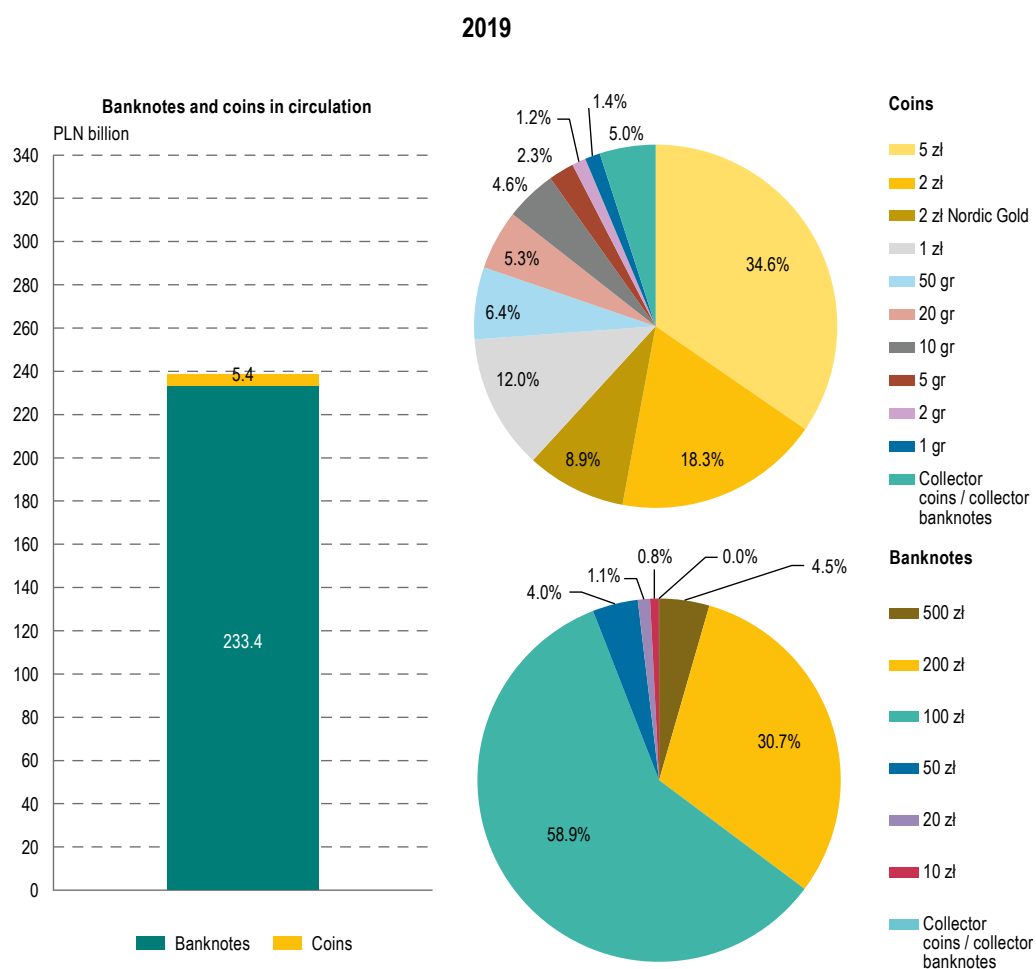
## 15.2.2.1. Banknotes and coins in circulation

The year 2020 saw a significant increase in the market demand for cash, mainly as a result of the growing importance of the value-storing and precautionary functions of cash amid the COVID-19 pandemic as well as the decline in deposit interest rates in banks following the interest rate cuts by the MPC.

**Figure 15.9.** The denomination breakdown of currency in circulation as at the end of 2020 and 2019





**Figure 15.9.** The denomination breakdown of currency in circulation as at the end of 2020 and 2019, cont'd


### 15.2.2.2. Monetary policy

**Table 15.7.** Assets (+) and liabilities (-) related to monetary policy as at the end of 2020 and 2019 (PLN billion)

	2020	2019	Change
A.5. Bill discount credits	0.1	0.0	0.1
A.7. Securities denominated in domestic currency	112.6	0.0	112.6
L.2. Current accounts (including required minimum reserve accounts)	-30.4	-50.7	20.3
L.2. Deposit facilities	-32.3	-14.8	-17.5
L.4. NBP bills	-127.8	-65.0	-62.8
<b>Total</b>	<b>-77.8</b>	<b>-130.4</b>	<b>52.6</b>

## 15.2.2.3. Equity of NBP

**Table 15.8.** Equity of NBP as at the end of 2020 and 2019 (PLN billion)

	2020	2019	Change
L.14. Statutory fund	1.5	1.5	0.0
L.14. Reserve fund	0.4	0.0	0.4
L.14. FX risk provision	9.9	6.7	3.2
L.13. Gold revaluation account	1.6	1.6	0.0
L.13. Gold holding revaluation gains	27.5	17.8	9.7
L.13. Currency revaluation gains	12.7	9.0	3.7
L.13. Price revaluation gains	3.9	2.1	1.8
L.15. Loss of previous years	-11.9	-11.9	0.0
L.15. Financial result for the current year retained at NBP <sup>1</sup>	0.5	0.4	0.1
<b>Total</b>	<b>46.1</b>	<b>27.2</b>	<b>18.9</b>
% of NBP balance sheet total	6.6%	5.6%	1.1%
Sensitivity of the equity of NBP to:			
– decrease in the average NBP exchange rate by 1% <sup>2</sup>	-4.4	-3.7	-0.7
– increase in interest rates by 100 basis points <sup>3</sup>	-9.1	-7.6	-1.5

<sup>1</sup> The financial result for the current year, after the approval of the NBP financial statements by the Council of Ministers, is allocated as a contribution from profit to NBP's reserve fund (5%) and as a contribution from profit to the State budget (95%).

<sup>2</sup> The figures represent the total decrease in unrealised currency revaluation gains or increase in unrealised currency revaluation losses in the case of an even 1% decrease in the average NBP exchange rates of the main reserve currencies as at the balance sheet date.

<sup>3</sup> For foreign currencies – based on the MD (modified duration) ratio, the cumulative decrease in unrealised price revaluation gains or increase in unrealised price revaluation losses in the case of an even increase in yield curves of 100 basis points as at the balance sheet date.

The most volatile components of the equity of NBP include currency and price revaluation gains (unrealised gains) and the FX risk provision.

Changes in revaluation gains are mainly affected by the trends in the market exchange rates of foreign currencies and gold (currency revaluation gains) and prices of securities (price revaluation gains).

The change in the FX risk provision depends on the estimated FX risk, the realised foreign exchange gains/losses on transactions in foreign currency during the year and the amount of revaluation losses as at the balance sheet date (unrealised losses).

## 15.2.3. NBP Balance Sheet – five-year statement

**Table 15.9.** NBP Balance Sheet in 2016–2020 (PLN billion) as at the balance sheet date

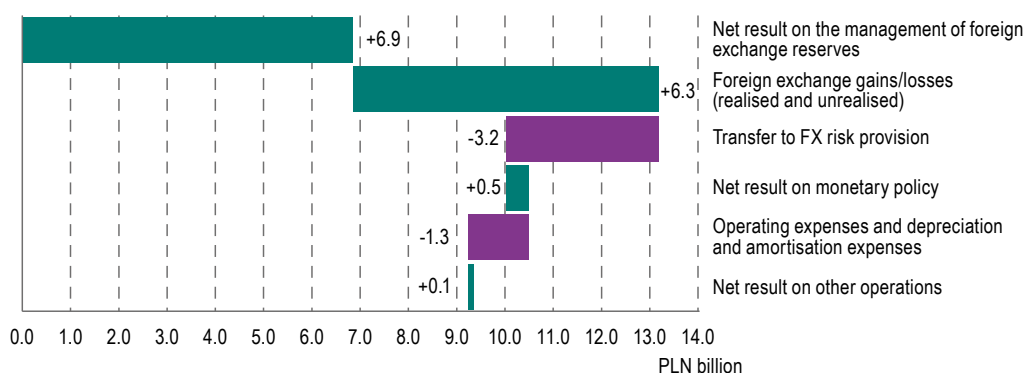
Assets		2020	2019	2018	2017	2016
A.1.	Gold and gold receivables	52.3	42.5	19.9	14.9	16.0
A.2.	Claims on non-residents denominated in foreign currency	527.5	445.2	419.9	379.4	463.2
	2.1. Receivables from the IMF	6.9	5.3	4.8	3.4	4.4
	2.2. Balances with foreign institutions, securities, loans granted and other foreign assets	520.6	439.9	415.0	376.1	458.9
A.5.	Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	0.1	0.0	0.0	0.0	0.0
A.6.	Other claims on other domestic monetary financial institutions denominated in domestic currency	0.0	0.0	5.6	0.0	0.0
A.7.	Securities of residents denominated in domestic currency	112.6	0.0	0.0	0.0	0.0
A.10.	Other assets	2.0	1.4	1.4	1.4	1.6
<b>Total assets</b>		<b>694.3</b>	<b>489.1</b>	<b>446.8</b>	<b>395.8</b>	<b>480.9</b>
Liabilities		2020	2019	2018	2017	2016
L.1.	Banknotes and coins in circulation	321.8	238.8	219.5	198.7	187.6
L.2.	Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	62.6	65.4	72.9	33.6	33.2
L.3.	Other liabilities to other domestic monetary financial institutions denominated in domestic currency	0.4	0.4	0.4	0.5	0.5
L.4.	Liabilities due to issued securities in domestic currency	127.8	65.0	53.3	94.4	81.3
L.5.	Liabilities to other residents denominated in domestic currency	24.9	9.3	7.3	7.6	5.0
L.6.	Liabilities to non-residents denominated in domestic currency	2.2	2.3	2.6	2.9	4.4
L.7.	Liabilities to residents denominated in foreign currency	46.3	22.4	25.1	19.3	27.3
L.8.	Liabilities to non-residents denominated in foreign currency	45.4	43.7	37.9	29.2	77.7
L.9.	Liabilities to the IMF	7.1	6.9	6.8	6.5	7.4
L.11.	Other liabilities	0.7	0.2	0.2	0.2	0.4
L.12.	Provisions for future liabilities	0.2	0.2	0.1	0.1	0.1
L.13.	Revaluation accounts	45.7	30.5	27.2	13.2	44.3
L.14.	Capital and reserves	11.7	8.2	5.4	3.0	13.3
	14.1. Statutory fund	1.5	1.5	1.5	1.5	1.5
	14.2. Reserve fund	0.4	0.0	0.0	1.5	1.0
	14.3. Reserves	9.9	6.7	3.9	0.0	10.8
L.15.	Financial result	-2.5	-4.0	-11.9	-13.3	-1.6
	15.1. Financial result for the current year	9.3	7.8	0.0	-2.5	9.2
	15.2. Loss of previous years	-11.9	-11.9	-11.9	-10.8	-10.8
<b>Total liabilities</b>		<b>694.3</b>	<b>489.1</b>	<b>446.8</b>	<b>395.8</b>	<b>480.9</b>

### 15.3. Characteristics of the NBP Profit and Loss Account

**Table 15.10.** Financial result of NBP for 2020 and 2019 (PLN billion)

	2020	2019
P&L 1. Net result on interest, discount and premium	3.1	3.3
1.1. Interest, discount and premium income	8.2	8.4
1.2. Interest, discount and premium expenses	-5.0	-5.1
P&L 2. Net result on financial operations	7.3	5.6
2.1. Net result on realised financial operations	10.6	8.8
2.2. Unrealised losses	-0.1	-0.4
2.3. Impairment of financial assets	0.0	0.0
2.4. Transfer to/from FX risk provision	-3.2	-2.8
P&L 3. Net result on fees and commissions	0.0	0.0
P&L 4. Income on shares and participating interests	0.0	0.0
P&L 5. Other income	0.1	0.1
<b>P&amp;L A. Total net income</b>	<b>10.6</b>	<b>9.0</b>
P&L 6. Salaries	-0.6	-0.6
P&L 7. Administrative expenses	-0.2	-0.3
P&L 8. Depreciation and amortisation expenses	-0.1	-0.1
P&L 9. Expenses on issue of banknotes and coins	-0.3	-0.3
P&L 10. Other expenses	0.0	0.0
<b>P&amp;L B. Financial result for the current year</b>	<b>9.3</b>	<b>7.8</b>

**Figure 15.10.** Financial result of NBP for 2020 by areas



#### 15.3.1. Net result on the management of foreign exchange reserves

Income on the management of foreign exchange reserves represented the main element determining the financial result of NBP in 2020 and 2019.

Despite the increase in the average annual level of NBP currency reserves amid an average annual depreciation of the zloty against most foreign currencies, 2020 saw a decrease in the result on the management of foreign exchange reserves by PLN 0.7 billion (-9.8%) compared to 2019. This was mainly driven by a decrease in net result on interest, discount and premium (resulting from a decline in interest rates in foreign markets) with a simultaneous increase in realised price gains (net result on financial operations) related to the sale transactions in securities amid falling yields.

**Table 15.11.** Net result on the management of foreign exchange reserves in 2020 and 2019 by currency

2020	USD <sup>1</sup>	EUR	GBP	AUD	NOK	NZD	Total
P&L 1. Net result on interest, discount and premium	2.4	-0.6	0.2	0.3	0.2	0.2	2.7
Term deposits	0.0	-0.1	0.0	0.0	0.1	0.0	0.0
Reverse repo transactions	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Repo transactions	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1
Securities	2.4	-0.4	0.2	0.3	0.2	0.2	2.7
P&L 2. Net result on financial operations	2.3	0.4	0.7	0.8	0.0	0.0	4.2
Realised price gains/losses	2.3	0.4	0.7	0.8	0.0	0.0	4.2
Price revaluation losses	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1
Financial result for the current year	4.7	-0.2	0.9	1.1	0.2	0.2	6.9
2019	USD <sup>1</sup>	EUR	GBP	AUD	NOK	NZD	Total
P&L 1. Net result on interest, discount and premium	3.9	-0.5	0.3	0.5	0.3	0.2	4.8
Term deposits	0.1	-0.1	0.0	0.0	0.1	0.1	0.2
Reverse repo transactions	0.2	0.0	0.1	0.0	0.0	0.0	0.3
Repo transactions	-0.2	0.0	-0.1	0.0	0.0	0.0	-0.3
Securities	3.9	-0.4	0.3	0.5	0.2	0.2	4.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P&L 2. Net result on financial operations	1.6	0.5	0.2	0.5	0.0	0.0	2.8
Realised price gains/losses	1.7	0.6	0.3	0.5	0.0	0.0	3.1
Price revaluation losses	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.2
Financial result for the current year	5.5	0.0	0.6	1.0	0.3	0.3	7.6
Change of financial result of the current year	-0.8	-0.2	0.3	0.1	-0.1	0.0	-0.7

<sup>1</sup> Interest on term deposits in gold is also included, which is accrued and paid in USD.

### 15.3.2. Foreign exchange gains/losses and transfer to/from FX risk provision

The most volatile components of the NBP financial result are foreign exchange gains/losses. The net result on foreign exchange gains/losses in 2020 increased by PLN 0.7 billion (12.5%) compared to 2019, mainly driven by an increase in the average annual difference between the average NBP exchange rate and the average cost of a holding for AUD, EUR and NZD and an increase in the sale volume of AUD and NZD.

The FX risk provision protects the central bank against the impact of materialisation of FX risk on the financial result (in the case of NBP, the value of foreign currency assets is negatively affected by the appreciation of the zloty). In 2020, NBP continued to build up the provision (fully used in 2017), which was replenished by the amount of PLN 3.2 billion (to PLN 9.9 billion).

**Table 15.12.** Foreign exchange gains/losses by currency and change in FX risk provision in 2020 and 2019

	2020							
	USD	EUR	GBP	AUD	NOK	NZD	Other	Total
<b>P&amp;L 2. Net result on financial operations</b>	<b>3.8</b>	<b>1.4</b>	<b>0.7</b>	<b>0.4</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.0</b>	<b>3.2</b>
Foreign exchange gains/losses	3.8	1.4	0.7	0.4	-0.2	0.3	0.0	6.3
– realised foreign exchange gains/losses	3.8	1.4	0.7	0.4	-0.2	0.3	0.0	6.3
– currency revaluation losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to FX risk provision								-3.2
	2019							
	USD	EUR	GBP	AUD	NOK	NZD	Other	Total
<b>P&amp;L 2. Net result on financial operations</b>	<b>3.8</b>	<b>1.2</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.8</b>
Foreign exchange gains/losses	3.8	1.2	0.5	0.1	0.0	0.0	0.0	5.6
– realised foreign exchange gains/losses	3.8	1.2	0.5	0.1	0.1	0.0	0.0	5.7
– currency revaluation losses	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1
Transfer to FX risk provision								-2.8
<b>Change in net result on financial operations</b>	<b>0.0</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.0</b>	<b>0.4</b>

### 15.3.3. Net result on monetary policy

Due to the purchase of securities denominated in domestic currency in 2020 and the NBP interest rate cuts, the Bank posted a positive net result on its monetary policy in the amount of PLN 0.5 billion for 2020 (PLN -1.4 billion in 2019).

**Table 15.13.** Net result on monetary policy conducted in 2020 and 2019 (PLN billion)

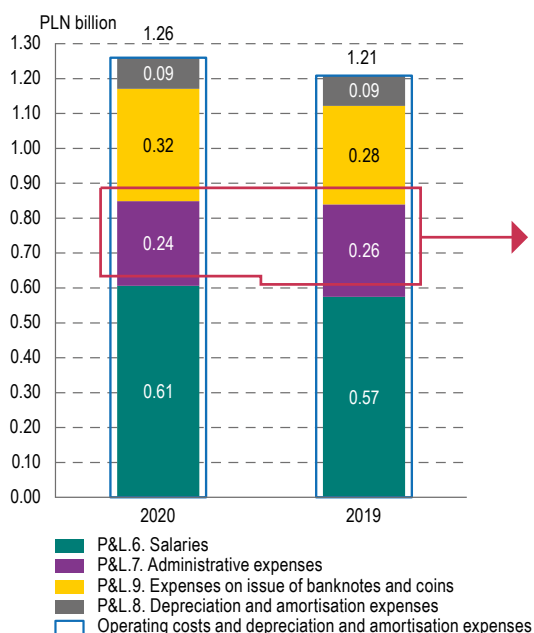
	2020	2019	Change
<b>P&amp;L 1. Net result on interest, discount and premium</b>	<b>0,5</b>	<b>-1,4</b>	<b>1,9</b>
NBP bills	-0,5	-1,2	0,7
Required minimum reserve	-0,1	-0,2	0,1
Deposit facility	0,0	0,0	0,0
Securities in PLN	1,1	0,0	1,1

### 15.3.4. Operating expenses and depreciation and amortisation expenses

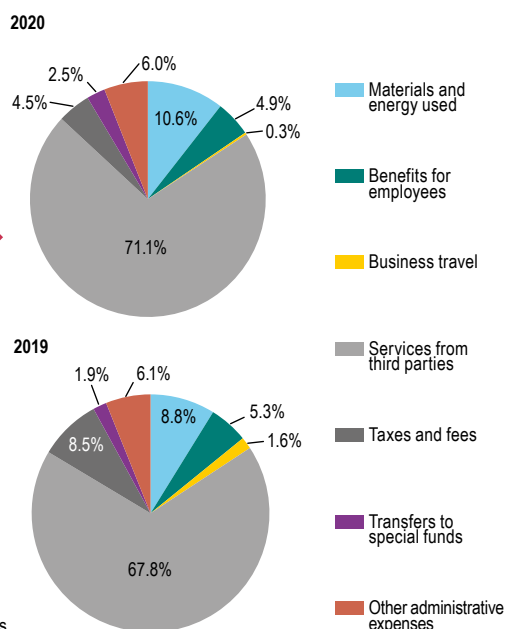
In terms of NBP's own administrative activities in 2020, NBP recorded an increase in expenses by PLN 0.05 billion (4.3%) compared to 2019. This was associated, among others, with an increase in salaries in line with the adopted HR and payroll policy and expenses on issue of banknotes and coins, while administrative expenses decreased.<sup>8</sup>

<sup>8</sup> Compared to 2019, expenses related to the remuneration of employees, along with the related social contributions and expenses on provisions for future liabilities to employees in 2020 were 5.5% higher. Administrative expenses were 8.5% lower, while expenses on issue of banknotes and coins grew by 14.0%.

**Figure 15.11.** Structure of operating expenses and depreciation and amortisation expenses in 2020 and 2019



**Figure 15.12.** Structure of administrative expenses in 2020 and 2019



### 15.3.5. Allocation of the financial result and contribution to the State budget

The financial result of NBP as at the end of 2020 amounted to PLN 9.3 billion.

Pursuant to the Act on NBP, PLN 8.9 billion is allocated to the State budget as contribution from NBP's profit, while the amount of PLN 0.5 billion increases the NBP reserve fund. Contribution from profit is made after the Financial Statements of Narodowy Bank Polski for 2020 have been approved by the Council of Ministers.

#### Seigniorage

The issue of cash involves the cost of purchasing banknotes and coins. Unlike other NBP liabilities, the liability due to the issue of banknotes and coins does not bear interest and therefore does not generate interest expenses. On the other hand, financial assets acquired in return generate certain income for NBP.

Income earned on assets whose source of financing is the liability due to the issue of banknotes and coins, less expenses on the issue, is referred to as the seigniorage; it represents the income from the issue of money.

Bearing in mind that the main assets of NBP are foreign exchange reserves (including gold) and – since 2020 – also securities denominated in domestic currency held for monetary policy purposes, in simple terms it can be assumed that what constitutes the income on the issue of money is net result on the management of foreign exchange reserves, foreign exchange gains/losses and net result on securities denominated in domestic currency, in a part respectively corresponding to the share of liabilities due to the issue of money in the total assets of NBP less expenses on the issue of banknotes and coins. In 2020, the estimated seigniorage amounted to PLN 6.5 billion (PLN 6.4 billion in 2019).

### 15.3.6. NBP profit and loss account – five-year statement

**Table 15.14.** NBP Profit and Loss Account in 2016–2020 (PLN billion)

	2020	2019	2018	2017	2016
P&L 1. Net result on interest, discount and premium	3.1	3.3	2.6	0.8	0.9
P&L 2. Net result on financial operations	7.3	5.6	-1.5	-2.4	9.3
P&L 3. Net result on fees and commissions	0.0	0.0	0.0	0.0	0.0
P&L 4. Income on shares and participating interests	0.0	0.0	0.0	0.0	0.0
P&L 5. Other income	0.1	0.1	0.1	0.1	0.1
P&L A. Total net income	10.6	9.0	1.2	-1.4	10.3
P&L 6. Salaries	-0.6	-0.6	-0.5	-0.5	-0.5
P&L 7. Administrative expenses	-0.2	-0.3	-0.3	-0.2	-0.2
P&L 8. Depreciation and amortisation expenses	-0.1	-0.1	-0.1	-0.1	-0.1
P&L 9. Expenses on issue of banknotes and coins	-0.3	-0.3	-0.3	-0.3	-0.3
P&L 10. Other expenses	0.0	0.0	0.0	0.0	0.0
P&L B. Financial result for the current year	9.3	7.8	0.0	-2.5	9.2
A contribution from profit to the State budget <sup>1</sup>	8.9	7.4	0.0	0.0	8.7

<sup>1</sup> A contribution from profit is made in the following year after the approval of the Financial Statements of Narodowy Bank Polski for a given year by the Council of Ministers.